

# **Buying a Partial Payment Mortgage Note is Like Getting**



## **The Pick of the Litter**

By JW War

You've probably heard the phrase "more than the sum of its parts." When synergistic parts work together, they accomplish more than they could alone like when nitro and glycerin comes together there is a mighty explosion. This describes the way partial notes effect "Fix and Flippers with Owner Finance" and "Small Investors." The results of these 2 groups coming together has a positive effect on both groups. It's a true "Win, Win." The good that comes from the connecting of these 2 diverse thinkers philosophies is much more profitable than the sum of what these 2 groups could accomplish on their own. Both groups have come to the same conclusions about the need to get their money out of the chaotic stock market and into resources that are backed by hard assets that have a utilitarian function. A value based on human need; real estate has a function whereas gold can be shinny. I have never understood why on all those TV and radio commercials they always want you to send them your soon to be worthless money and they will send you their soon to be precious gold but real estate is a hard asset with a function.

**Partial Payment Purchase Notes (PPPN)** are a great type of mortgage note. There are more and more "Fix and Flip Owner Finance" homes coming on the market (Read; "The Perfect Storm" <http://bit.ly/1MVAm59>) or watch this video <http://bit.ly/1HaMQUJ> .When a house Flipper buys a property and owner finances it, he only gets a small percentage of his original investment back in the down payment (Read; "Two Major Changes in Fix and Flip" <http://bit.ly/1IddGN5>). He will profit greatly over the term of the note, but he will have to wait quite a while to get enough money back to buy another property. Most of these Flippers understand the time value of money so they want as many notes increasing their cash flow

down the road as they can get. These flippers are beginning to see the great advantage of selling the first few years of the note's payments to gather cash to purchase more property.

Before we talk about PPPNs let me give a brief description of mortgage notes. The easiest way to grasp what a mortgage note is would be to simply take the word note out. A mortgage note is simply a mortgage on a property, only an individual is the bank. Someone wants to have a residual income and sells a house and offers the buyers financing. The new buyers will then make their payments to the seller instead of the bank. Probably the only thing that would keep you from investing your money in mortgage notes is you don't understand how they work. Read; "How to Make Money in Real Estate Without Real Estate" [bit.ly/1Fn6OhI](http://bit.ly/1Fn6OhI) or watch this video <http://bit.ly/1wfJVne>.

## **Benefits of Mortgage Notes/Real Estate Notes**

Since no property is being purchased, no rehab is needed. Since no property is being purchased, you don't pay property taxes. Finally, as a note buyer, you are not a landlord; rather you are the note holder (Lienlord), and as such, you are not responsible for any of the maintenance or wear and tear that happens to the house. The average note pays 13% interest. Once your common sense has a firm grasp on the fact that small mortgage notes are backed by collateral that averages 40% LTV and pay an average of 13% fixed interest you will take the appropriate steps.

## **Partials**

The Fix and Flippers that wants to build up as much residual income as possible without all the red tape that goes with working with a bank simple finances their next purchase by selling some of the first few years of payments on their last project. They will sell the next 36 payments on a 180 month mortgage note at a discount. Here is an example: Bill the flipper sells a house for \$55,000 with \$1,500 down. He finances, it for 11%, 180 months at \$608.80 per month. He then sells the next 36 payment which equal \$21,890 for \$18,000. The discount is \$3,890. If you bought this partial payment you will receive \$608.80 per month for 36 months.

<b>Property Value:</b>	<b>\$55,000</b>
<b>Owner Occupied:</b>	<b>Y</b>
<b>Sale Price:</b>	<b>\$55,000</b>
<b>Down Payment:</b>	<b>\$1,500</b>
<b>Face Value of Note for Sale:</b>	<b>\$53,500</b>
<b>Interest Rate:</b>	<b>11%</b>
<b>Payment Amount:</b>	<b>\$608.80</b>
<b>Buying 36 Payments</b>	<b><u>\$21,890</u></b>



Value	Note Balance	Your Discount	Your Total Cost	LTV	New Interest Rate	Monthly Payment	Paymts Left	Term Gross Profit	Per \$1,000 Invested Per Mth
\$55,000	\$21,890	\$3,890	\$18,000	33%	13.27%	\$608.80	36	\$3,917	\$33.82

It's human nature to protect your **STUFF** and equity in your house qualifies as **STUFF**. People will go to extraordinary lengths to protect what's theirs. If you were a homeowner with 60% equity in your home that was worth \$70,000 with a \$25,000 mortgage against it and you could no longer make your payment wouldn't you simply short sale the house for \$60,000 and pocket the \$35,000 of equity? Is it possible that any homeowner would let you foreclose on them and keep the \$35,000? That just doesn't sound like human nature. My granddad "Pop" once ask me "If a man with a shotgun walks up to a tree with 28 black birds in and a shots 3 how many black birds are left on the tree?" I answered 25 to which he replied no there would be none as the other 25 live birds would all fly away. He told me one answer was math and the other answer was the way things are. So is it possible that 25 black birds would stay in the tree after 3 were blown away... I guess it's possible but not very likely. It's possible that the homeowner would just give away his \$35,000 but I doubt it.

If the homeowner defaults on the loan Bill will have to pay off your balance before he can collect his balance of \$87,667 or take the property back. Bill will have to pay you off. If you get paid off before the end of the 36 months your yield goes through the roof. That's what I like about PPPNs. The creator and the homeowner are guaranteeing your note. Remember that unlike the seller and the property buyer, the investor has

no “Emotional Involvement” in the property. The property is only the collateral to secure repayment of the debt in the event of a default. As a partial payment note buyer you do not want the property you just want your money and your profit you don’t want the collateral.

***Investors that appreciate and understand compound Interest, the time value of money and the miracle of amortization Read; “The Never Told Story of How Banks Make Money <http://bit.ly/1FPuPfU> You will see the big advantage in buying a part of a note.***

To sum it up when you buy a partial you get double the protection because the homeowner and the note seller has vested interest in paying you off.

When buying mortgage notes the 3 most important things to consider are performed, performance and of course, performance, which is made up of the 4 performance parts:

- 1.) A **LTV** (Loan to Value) of 70% or lower.
- 2.) An **interest rate** of at least 13%.
- 3.) A ratio of around \$12 to \$14 for what each \$1,000 invested pays back per month (**Per 1K per Month**).
- 4.) A **discount** of at least 15%.

All mortgage note, buying decisions should be made with these 4 performance parts considered.

Let's see how the earlier example performs:

<b>Best LTV under</b>	<b>70%</b>	<b>Example</b> <u><b>33%</b></u>
<b>Interest above</b>	<b>13%</b>	<b>Example</b> <u><b>13.27%</b></u>
<b>Per 1K per Month</b>	<b>\$12</b>	<b>Example</b> <u><b>\$33.82</b></u>
<b>A discount of at least</b>	<b>15%</b>	<b>Example</b> <u><b>18%</b></u>

I love the fact that for every \$1,000 you invest that you will get \$33.27 back every month and you control the real estate with only 26% of its value. To get a list of all our notes email your request to [jw@AmericanNoteWarehouse.com](mailto:jw@AmericanNoteWarehouse.com)



**Make Money Like a Bank**  
**Average Mortgage Note 13%**  
**Qualifies as IRA**  
**Notes from \$10,000 to \$50,000**  
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